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REMARKS

The Examiner's Action of June 21, 2007 is noted in which Claims 17-19 and 23-25 are rejected, and in which Claims 20-22 are subject to a restriction and/or election requirement.

The Examiner Interview is gratefully acknowledged. In accordance therewith, Applicant traverses the restriction requirement and cancels Claims 17-19 and Claims 23-25 without prejudice.

As to the restriction requirement, the original restriction requirement of Claims 20-22 states as follows:

"This feature is distinct and nonobvious from the originally presented calculations performed by the server, which included providing the stock option exercise outcome *without any reference to comparison of the two gains.* (emphasis supplied)"

In the interview with the Examiner it was pointed out that the original Claim 5 did in fact claim this subject matter. As can be seen from Claim 5, this claim states "wherein the calculating step includes an alternative investment calculation based on comparing gain from sale of selected stock options versus gain for an alternative investment. (emphasis supplied)"

Here it can be seen that the original claims do in fact refer to comparison of two gains.

This being the case, Applicant respectfully traverses the restriction requirement.

This leave the patentability of Claims 20-22, which are presently in the case.

At the very least, support for the comparison step can be seen from the original language of Claim 5 quoted above.

Additionally, this subject matter is presented from the last full paragraph of Page 6 through the top of Page 7, in which it is said:

"The subject invention also provides modeling tools to help determine when to exercise their options by looking at comparisons of alternative investments. For instance, if an individual has stock option investment in a particular company, and the options are vested with six years remaining in the term, then the individual may wish to know if it is appropriate to exercise these options, sell the stock and put it into an alternative investment such as a mutual fund; or alternatively wait until the option term which will be six years later. The results of either of these two scenarios is immediately calculated and is presented to the individual so that the individual can make an intelligent choice as to whether to exercise his or her options."

As far as Applicant can tell, absolutely nowhere in the cited references is this comparison shown or taught, or in fact the use of a comparison to provide an indication of whether or not to exercise an option in view of what might happen with an alternative investment. Simply put, the Prior reference does not teach this useful feature, one that has been ignored by those having stock options.

#### Obviousness

As explained to the Examiner, an optionholder's "knee-jerk" response is to exercise stock options as soon as possible after vesting. However, as will be seen this is oftentimes not the best way to go!<sup>1</sup> The common mistake with exercising earlier in the term stems from thinking that the taxes will be lower because one can start the capital gains holding period clock earlier; and that with lower taxes, the optionholder thinks the net gains will be larger compared with exercising later. If the clock is started immediately, so the optionholder thinks, the period for capital gains treatment (maximum tax at 15%) occurs sooner and runs longer than it would if one waits to

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<sup>1</sup> After vesting, the stock option owner may either 1) cash out immediately to spend the money or purchase alternative investment (e.g. mutual fund, another stock) or 2) exercise and hold onto the stock as the alternative investment.

exercise later. Otherwise, so the optionholder thinks, with a later exercise, the full spread would be taxed at ordinary income rates (up to 35%).

However, what happens if a rise in the stock price means that the net gains for waiting to exercise the options later in the term far surpass the tax savings, even when the alternative investment grows by a greater percentage.

It is suggested that those holding stock options may simply not have a clue that such a thing could happen. This is because they don't understand the upside leverage with stock options and because they overestimate the advantage of the lower capital gains tax rate.

Although it is counterintuitive to many to most optionholders, in many situations the outcome is better by waiting to exercise. Early exercise soon after vesting can defeat the leverage in stock options and the tax-deferral advantages of waiting to exercise.<sup>2</sup> This in turn prevents the optionholder from possibly acquiring a larger net gain from a later exercise.

**Example:** An individual receives a grant of 10,000 nonqualified stock options with an exercise price of \$25. The grant has a 10-year term and vests after 4 years. At that point the market price for the stock is \$35. For the remainder of the term (i.e., 6 years), the individual predicts that the stock price will go up 6% annually, while an alternative investment funded with the after tax gains in the options will go up 9% annually (i.e., 50% more). The "knee jerk" conclusion is that the alternative investment is the better route and that the individual should exercise the options, sell the stock and fund this investment. **Wrong!**

Using the subject Comparison Modeling Tool, waiting to exercise the stock option at the end of the term will result in more after-tax cash, even though more money is paid in taxes. For

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<sup>2</sup> Note that while the gains at exercise are taxed, the built-in gain of an unexercised stock option grows without taxation until that option is exercised.

above example, after taxes at exercise (25% federal tax rate, 5% state rate, plus Social Security and Medicare), the stock options at the end of the term (with a 6% annual growth in the stock) will be worth approximately \$162,000, while the alternative investment at 9% annual growth will be worth approximately \$94,000 (\$68,000 less!). Who would have thought so?

For this reason, it is Applicant's firm contention that the claimed invention is exceedingly unobvious.

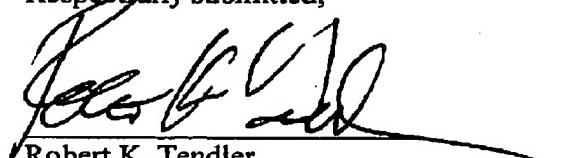
As further evidence of non-obviousness, Applicant points to commercial success, as evidenced by the award to him by Human Resources Executive magazine, attached hereto as Appendix A, for being in the Top 10 for Best HR Products of 2000. He was featured in the December issue of Human Resources Executive magazine and received a plaque acknowledging his accomplishment. Commercial success, indeed!

In summary, the invention of Claims 20-22 gives the option holder a non-obvious way to assess his situation and helps him or her decide if an early option exercise strategy is the right thing to do based on the expected annual increases they enter for the company stock price and the expected annual increase for the alternative investment.

Allowance of the claims and issuance of the case are therefore earnestly solicited.

Alternatively, entry of this Amendment for purposes of appeal is requested.

Respectfully submitted,



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## **APPENDIX A**

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# Human Resource Executive

Bruce Brumberg  
CEO and Editor-in-Chief  
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Dear Bruce:

Congratulations! We are pleased to inform you that "myStockOptions.com" has been selected as one of the 10 best HR products of 2000.

For this year's competition, our editors received and reviewed a record number of new products. From them, we selected 10 products that clearly met our stated criteria. (A copy of the competition's rules, including the judging criteria, is attached.)

This year's winners will be featured in the December issue of *Human Resource Executive*. We are also in the process of preparing a plaque that acknowledges your accomplishment, as well as an emblem that can be used on promotion materials.

If you have any questions, don't hesitate to call.

Cordially,

*David Shadovitz*

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